

File



WHARF RESOURCES LTD.

1977 REPORT



Directors

John Cornwell,
Willowdale, Ontario
Petroleum Executive

Peter R. Kutney, P.Eng.,
Vancouver, B.C.
President,
Wharf Resources Ltd.

Roland E. Legg, P.Eng.,
Vancouver, B.C.
Mining Consultant

J. Royden Morris,
Vancouver, B.C.
Director
Retired

David A. Sloan,
Mining Consultant
Vancouver, B.C.

Officers

President,
Peter R. Kutney, P.Eng.

Treasurer,
W. J. Macintosh

Secretary
Toni Phillips

REGISTERED OFFICE

Three Bentall Centre,
P.O. Box 49200,
595 Burrard Street,
Vancouver, B.C. V7X 1L1

EXECUTIVE HEAD OFFICE :

Suite 520, IBM Tower, Street,
701 West Georgia Street,
Vancouver, B.C. V7Y 1C6

TRANSFER AGENT AND REGISTRAR

Guaranty Trust Company of Canada,
540 Burrard Street,
Vancouver, B.C. V6C 1E5

SHARES LISTED

Mining Section -
Vancouver Stock Exchange

BANKERS

The Royal Bank of Canada,
1205 West Pender Street,
Vancouver, B.C. V6E 2V5

AUDITORS

Deloitte Haskins & Sells,
1055 West Georgia Street,
Vancouver, B.C. V6E 3P8

SOLICITORS

Lawrence & Shaw,
Three Bentall Centre,
P.O. Box 49200,
595 Burrard Street,
Vancouver, B.C. V7X 1L1



Landusky Property Montana

As reported in the Interim Report To Shareholders for the period ended January 31, 1977, resident Landusky Superintendent Mr. Ed Wieglanda passed away on November 15, 1976. His untimely death was on the eve of the Company's plans to commence a test heap pad leaching operation on the property. The Board of Directors of the Company recognized that in order to economically operate the property, not only was it necessary to have sufficient working capital, but also, capable and experienced on site supervision. The Company is short on working capital and was unable to find a suitable replacement for Mr. Wieglanda. Accordingly, in order to expedite the development of the property on a larger scale, a joint venture was entered into between the Company and Scholz International Mining Inc. by Agreement dated July 15, 1977. The principal of Scholz International is Mr. E. A. Scholz, a former Vice-President of Exploration for Placer Development Limited. Not only does Mr. Scholz possess a renowned reputation as a mining explorationist and developer, he also has an intimate knowledge of this particular property as a result of his experience during the period 1946 to 1948 as Manager of the Ruby Gulch Mining Company which operated a similar gold-silver property only 3 miles away. By the said July 5, 1977 Agreement the Company's 82.5% interest in the property was committed to the joint venture as follows:

1. Scholz International Mining Inc., at its own expense, will conduct a heap pad leaching operation of a minimum of 35,000 tons per year. (This is the maximum amount permitted by Montana Law without an environmental impact study.)
2. Simultaneously, Scholz will commence feasibility studies and prepare an environmental impact study in order to increase permitted production rates.
3. Net proceeds from the operation will initially be allocated 80% to repayment of all contributions made in respect of placing the property into production, and 20% to be divided equally between Wharf et al and Scholz. (It is anticipated that the first years' operation will substantially recover such capital contributions.)
4. The above sharing formula will continue until the capital contributions have been paid off and the Company recovers approximately \$620,000, thereafter the interests will be 65% to Scholz, 28.87% to the Company and 6.13% to L.R.M. Holdings Inc.
5. At the time that feasibility studies are completed (and environmental approvals received) confirming that the property can be mined at higher rates, the Company will have the option of increasing its' interest to 37.12% by contributing 12.7% towards future development expenses.

By mutual agreement, Scholz International Mining Inc. assigned the Agreement to Pegasus Explorations Limited with the written understanding that E. A. Scholz shall provide

management services in respect of all phases of development and operation of the property for a minimum period as may be required to place the property into production, plus one year thereafter.

From an extract of a Progress Report dated October 15, 1977 Mr. E. A. Scholz reported as follows:

"SUMMARY. Landusky Mining Inc., the wholly owned U.S. subsidiary of Pegasus Explorations Limited, is continuing an aggressive exploration and development program on its Landusky, Montana gold-silver property. Over 6000 feet of percussion drilling and 4000 feet of channel sampling has been completed. A test heap leaching operation is under way on 20,000 tons of ore. Bench metallurgical tests indicate a gross return of from \$150,000 to \$320,000 from this heap leach test.

Assay results and geologic studies to date indicate an open pit ore potential on the property of more than 10,000,000 tons assaying 0.05 oz. Au (gold) and 1.50 oz. Ag (silver) per ton. As soon as all assay and geologic data becomes available a formal report will be prepared.

Total expenditures to December 31 on the project are currently estimated at \$450,000 with a substantial cash recovery expected from the test heap leaching operation.

CONCLUSIONS. It is expected that the property will permit an eight-months per year operation at a scale of from 3000 to 7000 tons per day. Present data indicates an open pit ore potential of 10,000,000 tons assaying about 0.05 oz. Au and 1.50 oz. Ag per ton. When all of the assay, geologic and metallurgical data has been acquired and assembled an accurate analysis of the profitability of the project will be made. Present information suggests that on the grade of ore expected in a volume mining operation an operating profit of at least \$3.20 per ton can be expected."

In a News Release dated October 20, 1977 Pegasus Explorations Limited reported as follows:

"Pegasus has announced commencement of start-up operations of its gold/silver heap leaching plant situated near Landusky, Montana. The plant is expected to be fully operational within several days.

A preliminary report by the Company's field personnel indicate that approximately 20,000 tons of ore has been placed on the leach pad averaging approximately 0.10 oz. of gold and 1.85 oz. silver per ton.

The ore placed on the pad consisted of 11,000 tons hauled from several old mine dumps and 9,000 tons mined from an area called the Shale Drift Zone. Truck samples from this ore averaged 0.12 oz. gold and 0.35 oz. silver per ton. This grade is in close agreement with the grade established by previous surface and underground sampling. 36 blast holes were drilled to break the ore

from the Shale Drift Zone. A single composite sample was collected from each hole and assay information has been received on 31 holes. These holes ranged in depth from 19' to 45' and the assay results from the individual holes ranged from a low of 0.02 oz. gold and .03 oz. silver per ton to a high of 2.70 oz. gold and 1.35 oz. silver per ton. During the past several months, an extensive surface trenching and drilling program has been carried out on several target areas on the property. The Company's field geologist is currently compiling a report on this work and it is expected to be completed as soon as all of the assay data is available. Approximately 6,000 feet of drilling and 4,000 feet of channel sampling has been completed. To date, the results indicate a probable target of at least 10,000,000 tons of open pit leachable ore."

Ram River Coal Property Alberta

As a result of a position paper on the future development of coal resources in the Province of Alberta issued last year, the Government of Alberta has essentially confiscated the Company's 11,800-acre Ram River coal property. This is by virtue of the fact that the Company's leases have been designated as part of an area where surface mining will not be permitted. The position paper makes reference to compensation to be made for "costs of acquiring and holding the leased rights (bonus fees and rentals)."

On March 18, 1977 the Company made application to the Alberta Department of Energy and Natural Resources for compensation in the amount of \$455,421.23 related to acquisition costs, lease rentals and exploration costs, of which it is estimated that approximately \$288,000 is for the Company's account. In spite of continuous discussions with Government officials on the subject, the matter has not been resolved. The said officials maintain that final settlement must await the finalization of formal legislation on the subject.

Cariboo Holdings British Columbia

The Company holds 250,000 shares (approximately 7.8% of the outstanding shares) of the Mosquito Creek Gold Mining Company Limited. Mosquito Creek in association with others have since 1971 expended approximately \$1,800,000 toward development of a group of 29 claims immediately adjacent to the Company's 99 crown granted claims located in the Wells-Barkerville area of British Columbia.

The work carried out by Mosquito Creek included the sinking of a vertical 8'x20' three compartment shaft to a depth of 516 feet, 2136 feet of lateral underground development and 6606 feet of underground diamond drilling. Work was suspended in 1975 due to lack of funds.

In September of this year, Mosquito Creek completed a financing which netted the treasury \$385,000. On October 14, 1977 Mosquito Creek issued the following news release to its shareholders:

"Your Company has been listed on the Vancouver Stock Exchange in Vancouver, British Columbia. The shares were called for trading on October 11, 1977, and at close of business that day the volume of shares traded was 155,900 shares. The opening price per share was 50¢, the high was 62¢, low 50¢, and the share closed at 58 - 59¢ per share.

The warrants originally attached to each share which gives the warrant holder the right to purchase one share of common stock at 60¢ up to March 1, 1978, opened at 11¢ per warrant, had a high of 19¢ and a low of 11¢, closing at 18¢. The volume with respect to the warrants was 92,000.

Rehabilitation of the mine site was commenced in mid July of this year and all mining equipment and machinery made operational. The shaft, drifts and cross-cuts have been completely dewatered and a programme of exploration and development for ore reserves is currently underway. The work is being carried out on the 4100' level where, at the end of the 1975 programme, a vertical down-hole from a crosscut at the northeast end of this level made an intersection of 2.04 ounces per ton gold and 0.58 ounces per ton silver across 12.3 feet in a sulphide replacement.

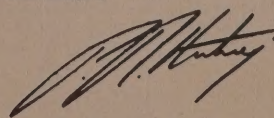
At present the programme consists of drifting and cross-cutting which will be supplemented in the near future by underground diamond drilling.

Additional reports to the shareholders will be forthcoming as the work progresses."

The work being carried out by Mosquito Creek will, due to proximity, have a direct bearing on the future of some of the Company's mineral claims in the area.

During the past year the Company spent approximately \$39,000 on its Wells-Barkerville holdings, principally on repairs and maintenance of its six-block apartments (39 units). The Company is reluctantly operating these apartments out of deference to various occupants who are relying on such accommodation as the only suitable housing in the area. If mining activity became reactivated in the area, the said apartments could form an essential part of the infrastructure of such operations.

On behalf of the Board



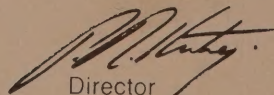

President

November 1, 1977

**WHARF RESOURCES LTD.** (Under the Companies Act, British Columbia)**Statement of Financial Position** As at July 31, 1977 (with prior year's figures for comparison)

	<u>1977</u>	<u>1976</u>
CURRENT ASSETS:		
Cash	\$ 4,878	\$ 10,395
Accounts receivable	13,083	17,790
Marketable securities - at cost (market value: 1977 - \$368,000; 1976 - \$394,000)	<u>128,973</u>	<u>128,973</u>
Total current assets	<u>146,934</u>	<u>157,158</u>
CURRENT LIABILITIES:		
Bank indebtedness - secured by certain marketable securities	70,000	3,000
Accounts payable and accrued liabilities	32,620	15,630
Due to Coseka Resources Limited	<u>12,183</u>	<u>2,113</u>
Total current liabilities	<u>114,803</u>	<u>20,743</u>
WORKING CAPITAL	32,131	136,415
INVESTMENTS - at cost or nominal value as appropriate (Note 2)	160,001	160,001
MINERAL PROPERTIES (Notes 1 and 3)	1,178,081	1,102,184
PROPERTY AND EQUIPMENT - net (Note 4)	51,190	38,268
OTHER ASSETS - at cost	<u>14,338</u>	<u>14,338</u>
	1,435,741	1,451,206
DEDUCT:		
Deferred income taxes (Note 5)	<u>65,569</u>	<u>73,306</u>
EXCESS OF ASSETS OVER LIABILITIES	<u>\$1,370,172</u>	<u>\$1,377,900</u>
SHAREHOLDERS' EQUITY:		
Share capital (Notes 6 and 7)	\$1,362,904	\$1,362,904
Retained earnings	<u>7,268</u>	<u>14,996</u>
Total shareholders' equity	<u>\$1,370,172</u>	<u>\$1,377,900</u>

APPROVED BY THE BOARD:


Director
Director

The accompanying notes are an integral part
of the financial statements.

Statement of Loss For the year ended July 31, 1977 (with prior year's figures for comparison)

	<u>1977</u>	<u>1976</u>
INCOME:		
Interest	\$ 259	\$4,495
Sundry	<u>-</u>	<u>1,580</u>
	259	6,075
Wells-Barkerville townsite operation - net	<u>(15,724)</u>	<u>1,156</u>
FUNDS (ABSORBED BY) GENERATED BY OPERATIONS	(15,465)	7,231
DEPRECIATION	<u>-</u>	<u>2,850</u>
	(15,465)	4,381
WRITE-DOWN OF INVESTMENT	<u>-</u>	<u>5,027</u>
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(15,465)	(646)
RECOVERY OF (PROVISION FOR) DEFERRED INCOME TAXES	<u>7,737</u>	<u>(559)</u>
NET LOSS FOR THE YEAR	<u>\$ 7,728</u>	<u>\$1,205</u>
LOSS PER SHARE	<u>Note 8</u>	

Statement of Retained Earnings For the year ended July 31, 1977 (with prior year's figures for comparison)

	<u>1977</u>	<u>1976</u>
RETAINED EARNINGS AT BEGINNING OF THE YEAR	<u>\$14,996</u>	<u>\$ 71,460</u>
NET LOSS FOR THE YEAR	(7,728)	(1,205)
WRITE-OFF OF ACQUISITION AND DEFERRED EXPLORATION AND DEVELOPMENT COSTS ON ABANDONED PROPERTIES	<u>-</u>	<u>(55,259)</u>
	<u>(7,728)</u>	<u>(56,464)</u>
RETAINED EARNINGS AT END OF THE YEAR	<u>\$ 7,268</u>	<u>\$ 14,996</u>

The accompanying notes are an integral part
of the financial statements.



WHARF RESOURCES LTD.

Statement of Changes in Financial Position For the year ended July 31, 1977 (With prior year figures for comparison)

	<u>1977</u>	<u>1976</u>
FUNDS APPLIED:		
Absorbed by operations	\$ 15,465	\$ -
Expenditures on mineral properties	75,897	185,843
Expenditures on equipment	<u>12,922</u>	<u>-</u>
Total funds applied	<u>104,284</u>	<u>185,843</u>
FUNDS PROVIDED:		
Funds generated by operations	-	7,231
Proceeds from sale of interest in mineral properties ...	<u>-</u>	<u>10,350</u>
Total funds provided	<u>-</u>	<u>17,581</u>
DECREASE IN WORKING CAPITAL FOR THE YEAR	104,284	168,262
WORKING CAPITAL AT BEGINNING OF THE YEAR	<u>136,415</u>	<u>304,677</u>
WORKING CAPITAL AT END OF THE YEAR	<u>\$ 32,131</u>	<u>\$136,415</u>

The accompanying notes are an integral part
of the financial statements.

Auditors' Report

To the Shareholders of
Wharf Resources Ltd.:

We have examined the statement of financial position of Wharf Resources Ltd. as at July 31, 1977 and the statements of loss, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the matter referred to in Note 10, these financial statements present fairly the financial position of the company as at July 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
September 23, 1977

DELOITTE HASKINS & SELLS
Chartered Accountants

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Mineral Properties:

The company follows the practice of capitalizing in its accounts all costs, including a portion of administrative expenses (administrative expenses of \$40,796 capitalized during the year), relating to the exploration for and development of mineral properties and crediting all sales and option payments received against the costs of related properties. As recommended in the Canadian Institute of Chartered Accountants' research study on non-producing mining companies, the aggregate of the costs related to mineral properties abandoned is charged to retained earnings or deficit, as appropriate, at the time of abandonment.

(b) Other Property, Plant and Equipment:

Land and equipment additions during the year are recorded at cost. Automotive equipment and idle buildings and equipment are recorded at estimated net realizable value.

2. INVESTMENTS:

Included in investments are certain shares carried at a cost of \$125,000 which are restricted as to trading for a period of up to one year from the date of an underwriting agreement in August 1977.

3. MINERAL PROPERTIES:

The balance is comprised of the following:

Interest in properties	\$ 758,578
Deferred exploration and development costs	<u>419,503</u>
TOTAL	<u>\$1,178,081</u>

The company has granted an option to a third party to acquire an interest in certain mineral properties, carried at a cost of \$645,092, whereby the company's 82 1/2% interest may be substantially reduced. If production is commenced on the property, the company will retain an interest in the property ranging from 29% to 37% depending on its participation in future development costs.

Notes to the Consolidated Financial Statements (cont'd)
4. PROPERTY AND EQUIPMENT:

The balance is comprised of the following:

	<u>1977</u>	<u>1976</u>
Wells-Barkerville property:		
Land - at cost	\$13,400	\$13,400
Idle buildings and equipment - at net realizable value	31,922	19,000
Vehicles - at net realizable value	<u>10,098</u>	<u>10,098</u>
	55,420	42,498
Less accumulated depreciation	<u>4,230</u>	<u>4,230</u>
Net property and equipment .	<u>\$51,190</u>	<u>\$38,268</u>

5. DEFERRED INCOME TAXES:

Recognition has not been given to deferred tax debits related to costs of abandoned properties written off as, for income tax purposes, these costs are only deductible from production income of properties owned by certain predecessor companies.

6. SHARE CAPITAL:

Details of share capital are as follows:

Authorized:

7,500,000 common shares of no par value

Issued and fully paid:

5,326,251 shares

7. STOCK OPTIONS:

Stock options have been granted to officers of the company for a total of 95,000 shares. The options are exercisable 20% at the date of granting the option and 20% at each of the following anniversary dates. The options are exercisable at the following rates:

Prior to January 29, 1978	40¢
Prior to January 29, 1979	50¢
Prior to January 29, 1980	60¢
Prior to January 29, 1981	70¢

The exercise rights are cumulative and may be exercised in subsequent years to the extent that they have not been previously utilized at the exercise price prevailing at the date of purchase.

8. LOSS PER SHARE:

Loss per share, calculated on the basis of the weighted average number of shares outstanding during the year, is \$nil (1976 - \$nil).

9. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

No remuneration was paid to the directors or officers of the company in their respective capacities. The aggregate remuneration paid or payable by the company to directors and senior officers, as defined in the Companies Act, British Columbia, being the five highest paid employees, amounted to \$17,410 (1976 - \$49,317).

10. PENDING GOVERNMENT LEGISLATION:

The Province of Alberta is currently preparing legislation on the future development of coal resources in that Province. One of the Province's proposals, if enacted as law, would require the company to abandon certain coal properties without recovering its acquisition costs of approximately \$240,000. As the Province's proposals have not yet become law, and no regulations have been issued to date, the company is unable to determine its position at this time, and the outcome of any negotiations with the Province will take an extended period of time. As a result of the above uncertainties, the company has not adjusted the carrying value of the property.

